

Message Text

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ACTION SS-25

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EXDIS

FOR THE SECRETARY FROM AMBASSADOR

EO 11652: GDS
TAGS: EAID, EG
SUBJ: ECONOMIC HELP FOR SADAT AT THIS CRITICAL JUNCTURE

1. WHEN WITH FAHMY THIS MORNING, HE NOTED SITUATION IN EGYPT IS ONCE AGAIN CALM. NEVERTHELESS, ECONOMIC SITUATION WHICH SADAT FACES REMAINS CRITICAL. IT IS ESSENTIAL THAT GOE'S FRIENDS PROVIDE SOME QUICK ECONOMIC ASSISTANCE, WHICH CAN BE WIDELY PUBLICIZED, TO SHOW THEIR SUPPORT FOR SADAT. HE ASKED THAT PRES CARTER URGENTLY CONSIDER MAKING AVAILABLE \$500 MILLION, AS HE PUT IT, IN ADDITIONAL CIP ASSISTANCE. THIS SHOULD BE IN THE FORM OF FOODSTUFFS FOR THE POPULACE, ESPECIALLY POWDERED MILK, MEAT, CANNED WHITE BEANS, MAIZE, ETC. IF USG COULD DO SOMETHING OF THIS SORT IN COMING WEEK, IT WOULD HAVE MAJOR IMPACT. I SIMPLY AGREED TO SUBMIT HIS REQUEST.

2. COMMENT: FAHMY IS OBVIOUSLY TALKING OF \$500 MILLION IN ASSISTANCE ABOVE THE \$700 MILLION ALREADY APPROPRIATED BY CONGRESS FOR EGYPT IN FY 1977. I ASSUME THAT THIS MUCH ADDITIONAL ASSISTANCE IS NOT FEASIBLE. HOWEVER, IT WOULD SEEM DESIRABLE TO EXPLORE WHETHER SOME ADDITIONAL ASSISTANCE ABOVE THAT NOW PROGRAMMED FOR EGYPT MIGHT BE POSSIBLE. SEPARTELY I HAVE ALREADY BEEN INFORMED THAT PL 480 PROGRAM CAN BE INCREASED BY \$60

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MILLION IN VERY NEAR FUTURE. IT MAY BE POSSIBLE TO FIND MEANS TO INCREASE THAT AMOUNT EVEN FURTHER FOR OTHER FOOD PRODUCTS. DEPENDING ON OTHER DEMANDS ON SECURITY SUPPORTING ASSSITANCE FUNDS, IT MAY ALSO BE POSSIBLE TO FIND SOME AMOUNT ABOVE THE CURRENTLY PROGRAMMED \$700 MILLION. I THINK THESE ALTERNATIVES SHOULD URGENTLY BE EXPLORED.

3. I RECOGNIZE, HOWEVER, THAT THE MAJOR PART OF ANY RESPONSE WE MIGHT MAKE TO FAHMY'S REQUEST MUST BE WITHIN CONTEXT OF CURRENTLY PROGRAMMED \$700 MILLION FY77 AID SUPPORTING ASSISTANCE PROGRAM, OF WHICH \$250 MILLION IS CURRENTLY ALREADY PROGRAMMED FOR A COMMODITY IMPORT PROGRAM. WHILE IN WASHINGTON LAST WEEK, I DISCUSSED WITH AID, EB AND POATS AN IDEA ORIGINALLY PROPOSED BY AID TO INCREASE PRESENT FY77 CIP ALLOCATION OF \$250 MILLION TO \$500 MILLION. IN OUR DISCUSSIONS WE TALKED OF THE POSSIBILITY OF USING \$400 MILLION OF THIS FOR IMPORTS OF CONSUMABLES AND RAW MATERIALS AND \$100 MILLION FOR A CASH LOAN. THE OBJECTIVE AT THAT TIME WAS TO MAKE SUCH A MAJOR CIP ALLOCATION CONTINGENT UPON GOE ACCEPTANCE OF THE IMF RECOMMENDATIONS.

4. IN THE FACE OF RECENT SERIOUS RIOTS HERE, REPORTED SEPTEMBER, SUCH A CLEAR LINKAGE DOES NOT NOW SEEM FEASIBLE OR DESIRABLE. NEVERTHELESS, IT IS ONLY FAIR TO SAY THAT GOE HAD THE COURAGE TO TRY TO IMPLEMENT SOME OF IMF RECOMMENDATIONS BY RAISING BASIC COMMODITY PRICES. AS YOU KNOW FROM OUR REPORTING, THESE PRICE RISES WERE DIRECTLY RESPONSIBLE FOR TRIGGERING THE COUNTRY-WIDE RIOTS. THE PRICE RISES, WHICH REPRESENT AN IMPORTANT ELEMENT OF A REFORM PROGRAM BEING DISCUSSED AT THIS MOMENT WITH THE IMF, HAS BEEN SUSPENDED. AS A RESULT, WE DO NOT KNOW AT THIS STAGE WHETHER THE GOE WILL HAVE THE CAPACITY AND WILL TO REACH AN UNDERSTANDING WITH IMF OF A SATISFACTORY SORT HAVING IN MIND THE DEMONSTRATED POLITICAL PROBLEMS ASSOCIATED WITH PRICE RISES. CERTAINLY WE MUST ASSUME THAT ANY PROGRAM WHICH MIGHT BE WORKED OUT WILL BE MORE GRADUALIST THAN WHAT WAS ATTEMPTED EARLIER THIS WEEK.

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5. I DO BELIEVE WE MUST GIVE THE GOE CREDIT FOR TRYING AND WE SHOULD ENCOURAGE IT TO CONTINUE TO SEEK REFORM EFFORTS AS FAR AS IT JUDGES IT CAN REASONABLY GO WITHIN THE FRAMEWORK OF THE POLITICAL REALITIES OF THIS WEEK'S EVENTS. I THEREFORE RECOMMEND THAT WE SEEK TO PUT TOGETHER A \$500 MILLION PACKAGE IN RESPONSE TO FAHMY'S REQUEST MADE UP OF: (A) THE \$60 MILLION ALREADY APPROVED FOR ADDITIONAL PL 480; (B) ANY ADDITIONAL PL 480 THAT MAY BE POSSIBLE FOR PRODUCTS OTHER THAN WHEAT; (C) ANY POSSIBLE INCREASE IN THE SSA PROGRAM ABOVE THE CURRENTLY APPROPRIATED \$700 MILLION WHICH MIGHT PROVE TO BE AVAILABLE AND WHICH WOULD BE DEVOTED TO THE CIP PROGRAM; AND (D) AN INCREASE FROM \$250 MILLION TO WHATEVER LEVEL WOULD BE NEEDED (AT LEAST \$440 MILLION BUT PERHAPS SOMEWHAT LESS IF ITEMS (2) AND (3) ABOVE COULD BE PROVIDED) IN THE FY77 CIP PROGRAM FROM FUNDS CURRENTLY AVAILABLE FOR EGYPT.

6. FURTHER, I DO NOT BELIEVE WE SHOULD AT THIS JUNCTURE ATTEMPT TO MAKE SUCH CHANGES SPECIFICALLY CONDITIONAL ON ACCEPTANCE OF IMF REFORMS. SADAT CLEARLY NEEDS SOME SIGNIFICANT GESTURE OF US

SUPPORT AT THIS CRITICAL TIME AND THE IMPACT OF SUCH AN ACTION ON OUR PART WOULD BE ENORMOUS. HOWEVER, I DO THINK WE SHOULD SAY TO SADAT THAT WE BELIEVE THAT CONTINUED MOVEMENT IN THE DIRECTION OF ECONOMIC REFORM IS CRITICAL TO EGYPT'S LONG TERM DEVELOPMENT, THAT WE APPLAUD WHAT HAS BEEN ATTEMPTED, THAT WE RECOGNIZE THE POLITICAL PROBLEMS THAT HAVE BEEN POSED AND THE FACT THAT THIS MEANS FURTHER EFFORT ON REFORM MAY HAVE TO BE SOMEWHAT MORE GRADUALIST THAN HAD BEEN HOPED, AND THAT OUR ADDITIONAL SUPPORT IS PROVIDED IN EXPECTATION THAT GOE WILL CONTINUE TO DO ALL ON ECONOMIC REFORM THAT SEEMS POLITICALLY FEASIBLE TO EGYPTIAN LEADERSHIP.

7. I HAVE ALREADY COMMUNICATED WITH ROY ATHERTON, IN RESPONSE TO A MESSAGE FROM HIM, SUGGESTING HOW THE NEWLY APPROVED \$60 MILLION INCREASE IN PL 480 NOTED ABOVE MIGHT BEST BE HANDLED IN PRESENT CIRCUMSTANCES. AS INDICATED ABOVE, WHILE I THINK THE QUICK AVAILABILITY OF THIS RESOURCE CAN BE HELPFUL AS AN
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IMMEDIATE GESTURE OF RESPONSE TO SADAT, IT IS HARDLY ENOUGH TO SHOW THE KIND OF STRONG USG SUPPORT THAT IS CRITICALLY NEEDED AT THIS POINT.

8. PLEASE INSTRUCT WHAT I MAY TELL FAHMY IN RESPONSE TO HIS REQUEST.
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